



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



CIVIL DIVISION

MAR 28 1972

Dear Mr. Ball:

DLG 06136
The General Accounting Office has reviewed the procedures used by Washington Physicians' Service (WPS) for processing and paying claims for physicians' services provided under the Supplementary Medical Insurance program--part B Medicare. WPS is the Medicare carrier for the State of Washington and uses a system of 20 separate and autonomous corporations--medical service bureaus--to process Medicare claims.

Our review, which was directed toward an analysis of the efficiency and effectiveness of this decentralized approach showed that the WPS system may not be the most efficient and effective method of processing claims. We believe that the system could be improved by either consolidating the activities of the separate bureaus or by using an alternate system for processing claims.

CARRIERS' ROLE IN PROCESSING CLAIMS

In February 1966, the Secretary of H&W entered into a contract with WPS to serve as the Medicare carrier for the State of Washington. Most of the claims processing function under the WPS contract was in turn subcontracted to medical service bureaus (Bureaus) which act as Medicare carriers in their respective geographical areas. WPS serves as the central coordinating body for these Bureaus and does not process any Medicare part B claims.

At the time of our review, the Bureaus were using four different systems for processing part B claims in the State of Washington. Three of the Bureaus, including the two largest which in fiscal years 1970 and 1971 processed about 52 percent of the Medicare part B claims in the State, did their claims processing in-house. The other 17, which processed about 45 percent of the claims, had further subcontracted with Computer Services, Inc., (CSI) to do part of their claims processing.

PROBLEMS WITH DECENTRALIZED SYSTEM

The decentralized organizational structure used by WPS is not, in our opinion, the most efficient and effective approach to doing a job which appears to have a high potential for using centralized automated procedures. Our review of Social Security Administration (SSA) records and discussions with SSA officials showed that SSA had recognized for some time that most of the Bureaus were not processing

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claims in accordance with established regulations. In this respect, some of the problems noted were:

- lack of effective quality control procedures in most of the Bureaus, with many of the smaller ones relying on a few clerks to make most of the day-to-day decisions;
- lack of customary and prevailing charge profiles for determining the reasonable charges for services; and
- lack of effective utilization review controls and procedures especially among the smaller bureaus.

SSA recognized also that WPS has had little control over the internal operations of the Bureaus resulting in SSA becoming increasingly involved in the day-to-day operations of the Bureaus. We noted that some steps were taken by SSA and WPS to correct some of these problems such as developing customary and prevailing charge data, and assigning an on-site representative at WPS in April 1970 to study the carrier's claims processing activities to assure that these activities are managed effectively and that SSA directives are being followed. A contract performance review conducted by SSA in January 1971 and our work at several of the Bureaus in mid-1971 showed that, despite these efforts, some of the problems continued to exist.

Our review of the claims processing operations at several of the Bureaus showed that the decentralized Medicare operation under WPS was administratively cumbersome and inefficient. In this respect some of the problems noted were:

- duplication of functions between the Bureaus and between WPS and SSA;
- a variety of different systems to be evaluated, maintained, and monitored;
- use of manual operations by some of the Bureaus;
- low volume of claims processed by some Bureaus with longer processing time and higher ratios of administrative costs to benefits paid;
- inefficient query/reply process for some Bureaus which, because of low volume, had to pool and route their queries through larger Bureaus.

We believe that these problems have contributed to the higher administrative costs incurred by some of the Bureaus, and resulted in higher costs to the Medicare program than would have been incurred under a centralized system.

INCREASING ADMINISTRATIVE COSTS

An analysis of SSA's statistical reports and discussions with SSA officials showed that the administrative costs incurred by WPS to process and pay Medicare part B claims during fiscal years 1969 and 1970 had been consistent with the average costs incurred by other carriers. We noted that during this period most of the Bureaus had not implemented adequate quality control programs and were not making the required reasonable charge determinations. However, we were advised by SSA officials that during fiscal year 1971, CSI had started developing customary and prevailing charge data to make reasonable charge determinations for 18 of the Bureaus.

The fiscal 1971 reports prepared by SSA and the cost estimates prepared by WPS for fiscal year 1972 showed a sharp increase in the Bureau's administrative costs. For example, for fiscal year 1971 the average cost of processing a payment record for all carriers was about \$1.06. A comparison of this average with the cost incurred by the individual Bureaus during this period showed that 13 of the Bureaus--compared to two in fiscal year 1970--exceeded the national average by a range of \$.28 to \$2.14 per payment record. These amounts, we were advised by SSA, excluded the administrative costs incurred by the WPS central office which amounted to about \$.23 per payment record in fiscal year 1971.

A review of the estimated costs for fiscal year 1972 showed that 13 of the Bureaus would exceed the national average by a range of \$.44 to \$3.74 per payment record. Again we were advised that these amounts were exclusive of WPS central office administrative cost which should total about \$.36 per payment record. We believe that efforts by SSA and WPS to improve the Bureaus' performance and to require them to comply with SSA requirements and directives has contributed to this rise in the Bureaus' administrative costs.

SSA also publishes information on the ratio of carriers' administrative costs to the amount of benefit payments made. A comparison of this information for fiscal years 1970, 1971 and the first half of fiscal year 1972 showed that all Bureaus except one had consistently exceeded the national average as follows:

<u>Fiscal Year</u>	<u>National average (percent)</u>	<u>WPS Bureaus (range in percent)</u>
1970	8.4	7.8 - 22.9
1971	9.0	7.9 - 23.8
1972 (6 months)	8.8	7.5 - 23.5

Our comparison showed also that the ratio of administrative costs incurred by four of the Bureaus in fiscal year 1970 and eight in 1971 exceeded the national average by at least 100 percent.

CONCLUSION

We believe that the decentralized claims processing system being used in the State of Washington, in which 20 separate and autonomous Bureaus process claims using several different systems, is not the most efficient and effective arrangement. Because of the low claims volume processed by many of the Bureaus, duplication of efforts between the various organizational entities, and failure of some of the Bureaus to comply with SSA requirements, we believe SSA should consider the practicability of

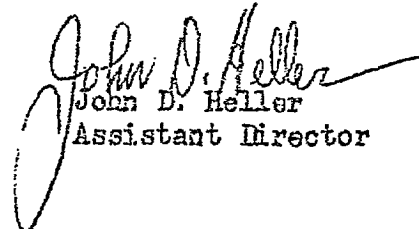
--consolidating the Medicare claims processing activities of the Bureaus into one or two operations to take advantage of the economies which could be derived from having fewer systems processing larger number of claims, or

--using an alternate system to process Medicare claims in the State of Washington.

We would appreciate being advised of any action you take on this matter and will be pleased to discuss the subject further with you or your staff.

Copies of this report are being sent today to the Assistant Secretary, Comptroller and to the Director of HEW Audit Agency.

Sincerely yours,


John D. Heller
Assistant Director

Mr. Robert M. Ball
Commissioner of Social Security
Department of Health, Education, and Welfare

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